

Since the end of the second quarter, it seems we are moving around a bit more and starting to experience some of what life was like before the pandemic. But the world, it seems, is spinning faster than ever and events have occurred that have again taken us from life as we remembered it to a new place of uncertainty. The pandemic has changed our perceptions of how we do so many things; work, vacation, worship, eating out, a Doctor’s appointment, traveling and entertainment.

American businesses have adapted quickly and some have fared better than others. While government stimulus programs have saved many from financial ruin, temporary layoffs are now decreasing while permanent job losses are increasing. Unemployment numbers will be affected by “hot spots” and new cases. There are 11 sectors that make up the S & P 500 index. Nine of those sectors saw decline in the second quarter and two showed growth. The Open Market Committee (OMC) projects that U.S. GDP will drop 6.5% in 2020. They also project 5% growth in 2021 and 3.5% in 2022. As lockdowns return to some areas, rebounds are occurring in other areas as they return to work. Capital investing will seek those businesses that can realize opportunity and this will drive the economy. Healthcare, telecommunications, real estate and computer technology will all benefit from the new normal after the pandemic. Who knows, we may even see drive-in theaters make a comeback. However, some businesses such as movie theaters, beauty salons, sporting events and other “high contact” businesses will likely struggle until a vaccine is available.

To put into perspective the volatility we have experienced since 2020 began, the chart below says it all.

	DOW JONES	S & P 500	NASDAQ
12/31/2019	28,462	3,230	8,945
3/31/2020	22,327	2,626	7,7674
8/13/2020	27,890	3,372	11,002

Regardless of what “shape” the economic recovery will take on, there will be a long-term effect from the shutdown and the recovery will be influenced by several major influences. In addition, the U.S. is just one of many countries in a similar situation. But, as the chart above illustrates, stocks have largely regained or exceeded valuations prior to the pandemic. This is actually normal with a short recession. History shows us that stock valuations recovery quickly and then the earnings of those companies slowly justify those valuations. The stock market is not “cheap” at this point, and while some sectors have attractive pricing, those that have led the rebound are very pricey.

The market will be significantly influenced by several factors for the balance of 2020 such as the FED has made it clear that interest rates will remain low for the foreseeable future. This will keep money cheap for companies who need to take on debt to rebuild, adapt and hire workers. Corporate earnings and pricing will be a continuing source of volatility. The technology sector is a prime example of this. The sector has expanded tremendously very quickly and the stock prices and valuations are subject to many influences. Two examples of this type of volatility are Apple and Tesla.

The speed of the economic recovery will be influenced by ongoing trade talks with China and a few other major trade partners. A by-product of the tariffs and these talks is a repatriation of U.S. companies that are moving operations back to the U.S. President Trump is making this decision easier for some of them with tariffs and the current emphasis on having local companies provide essential products such as ventilators and prescription medicines.

The November election will create uncertainty in the markets and this could be significant. A new administration brings possible changes to many things that have been positive factors in the economic expansion prior to the pandemic. Corporate regulations, taxes, tariffs and economic policy have all been factors in the expansion, and the election will bring risk of changes that could negatively affect profits.

The rate of the economic recovery will also influence the markets significantly. If unemployment improves and companies are able to rebuild and start hiring, the market will respond positively. However, if large employers are not able to survive and large numbers of their employees lose their jobs, that will be a negative influence on earnings and stock prices.

Another situation that should be addressed is the civil unrest and riots since the death of George Floyd. This has become an opportunity for some groups to insert themselves into the picture and escalate a bad situation into a much worse one. Portland, Seattle, Chicago and Minneapolis have been damaged, businesses and jobs destroyed and billions of dollars in damages left in the wake of these riots. This is not the answer nor the solution. An anonymous text written long ago may be a better path:

Lord, make me an instrument of your peace
Where there is hatred, let me sow love
Where there is injury, pardon
Where there is doubt, faith

Thank you for the trust you have placed in us and the opportunity to be your trusted advisor. Your trust is our most valuable asset. In this time of social distancing, we ask that you to call us with any questions you have, or if your financial situation has changed and you want to reassess your risk tolerance. We have been fortunate to remain healthy and able to work without inconvenience. We look forward to meeting again and hope that you stay safe and healthy.

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If you require account service or information (deposits, withdrawals, transfers, address or name change, etc.), please contact our office.

Please be so kind as to inform us of any and all changes that may affect our ability to service your accounts. In particular, please inform us immediately if:

- 1) You have any changes to your financial condition or would like to reevaluate your risk tolerance.
- 2) You change your "mailing" or "physical" address.
- 3) You change banks thereby impacting a standing "MoneyLink" or other money movement instructions.

If you wish to schedule a phone conference or meeting with your advisor, please contact our office.

BUSINESS CONTINUITY & DISASTER RECOVERY

FMI maintains a current Business Continuity and Disaster Recovery Plan to address the actions we will take should we encounter events similar to the Katrina floods, 911 attacks, or other similar disasters. The plan also addresses our response to short-term business interruptions—ice storms, extended power and/or internet outages, etc.

In the event of a bona fide disaster or short-term interruption, we will be available via normal communication modes – email and phone.

In the event you are unable to contact us during a bona fide disaster or short-term interruption and you need to access your accounts or account information, you may call Schwab directly:

Schwab Alliance: 800-515-2157

OFFICE CLOSURES

Please take note of our upcoming holiday office closures:

Monday, September 7, 2020 (Labor Day)

Monday, October 12, 2020 (Columbus Day)

Wednesday, November 11, 2020 (Veteran's Day)

Thursday & Friday, November 26-27, 2020 (Thanksgiving)

OFFICE HOURS

Please take note of our office hours:

Monday – Friday

8:00 a.m. – 4:30 p.m.

FORM ADV, PART II

Please contact your Advisor if there are any changes in your financial situation or investment objectives. Please contact Harold F. Grubbs, President of Financial Management, Inc. (501.227.7400), if you wish to impose, add or modify any reasonable restrictions to the management of your account by your Advisor, Financial Management, Inc. Our current disclosure statement is set forth in a written disclosure brochure based on Part II of Form ADV and is available for your review upon request.

FINANCIAL MANAGEMENT, INC.

P. O. Box 17590

Little Rock, AR 72222-7590

(501) 227-7400

(800) 719-2796

(501) 227-9422 (FAX)

www.fmioffice.com

